

**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
SHERIFF'S SETTLEMENT – 2014 OIL AND GAS TAXES**

**For The Period
January 01, 2015 Through June 15, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE MCLEAN COUNTY SHERIFF'S SETTLEMENT – 2014 OIL AND GAS TAXES

**For The Period
January 01, 2015 Through June 15, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Oil and Gas Taxes for the McLean County Sheriff for the period January 01, 2015 through June 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The McLean County Sheriff collected 2014 Oil and Gas taxes of \$104,497 for the districts, retaining commissions of \$3,989 to operate the sheriff's office. The McLean County Sheriff distributed 2014 Oil and Gas taxes of \$101,168 to the districts. Refunds of \$660 are due to the sheriff from the taxing districts.

Report Comments:

2014-001 The McLean County Sheriff's Office Has A Lack Of Segregation Of Duties
2014-002 The McLean County Sheriff's Office Did Not Prepare Bank Reconciliations

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Kelly Thurman, McLean County Judge/Executive
Honorable Kenneth Frizzell, McLean County Sheriff
Members of the McLean County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the McLean County Sheriff's Settlement - 2014 Oil and Gas Taxes for the period January 01, 2015 through June 15, 2015 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Kelly Thurman, McLean County Judge/Executive
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the McLean County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the McLean County Sheriff, as of June 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 01, 2015 through June 15, 2015 of the McLean County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 02, 2016 on our consideration of the McLean County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the McLean County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the McLean County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Kelly Thurman, McLean County Judge/Executive

Honorable Kenneth Frizzell, McLean County Sheriff

Members of the McLean County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2014-001 The McLean County Sheriff's Office Has A Lack Of Segregation Of Duties

2014-002 The McLean County Sheriff's Office Did Not Prepare Bank Reconciliations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon

Auditor of Public Accounts

May 02, 2016

MCLEAN COUNTY
KENNETH FRIZZELL, SHERIFF
SHERIFF'S SETTLEMENT – 2014 OIL AND GAS TAXES

For The Period January 01, 2015 Through June 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Oil Property Taxes	\$ 17,705	\$ 14,476	\$ 63,644	\$ 14,595
Gas Property Taxes	39	32	142	33
Penalties	84	69	303	69
Gross Chargeable to Sheriff	<u>17,828</u>	<u>14,577</u>	<u>64,089</u>	<u>14,697</u>
<u>Credits</u>				
Exonerations	45	36	160	37
Discounts	292	239	1,050	241
Delinquents:				
Oil	697	570	2,506	575
Gas	39	32	142	33
Total Credits	<u>1,073</u>	<u>877</u>	<u>3,858</u>	<u>886</u>
Taxes Collected	16,755	13,700	60,231	13,811
Less: Commissions *	<u>712</u>	<u>582</u>	<u>2,108</u>	<u>587</u>
Taxes Due	16,043	13,118	58,123	13,224
Taxes Paid	<u>16,149</u>	<u>13,203</u>	<u>58,504</u>	<u>13,312</u>
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (106)</u>	<u>\$ (85)</u>	<u>\$ (381)</u>	<u>\$ (88)</u>

**

* Commissions:

4.25% on \$ 44,266

3.5% on \$ 60,231

** Special Taxing Districts:

Library District \$ (27)

Health District (26)

Extension District (23)

Soil Conservation (9)

(Refunds Due Sheriff) \$ (85)

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The McLean County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 15, 2015
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480 and KRS 41.240. As of June 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Oil And Gas Taxes

The oil and gas tax assessments were levied as of January 1, 2014. Oil and Gas taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2015 through June 15, 2015.

Note 4. Interest Income

The McLean County Sheriff earned \$1 as interest income on 2014 Oil and Gas taxes. The sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The McLean County Sheriff collected \$255 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of May 2, 2016, the sheriff owed \$19 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Thurman, McLean County Judge/Executive
Honorable Kenneth Frizzell, McLean County Sheriff
Members of the McLean County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the McLean County Sheriff's Settlement - 2014 Oil and Gas Taxes for the period January 01, 2015 through June 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 02, 2016. The McLean County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the McLean County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McLean County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McLean County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2014-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

May 02, 2016

COMMENTS AND RECOMMENDATIONS

MCLEAN COUNTY
KENNETH FRIZZELL, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 01, 2015 Through June 15, 2015

FINANCIAL STATEMENT FINDINGS:

2014-001 The McLean County Sheriff's Office Has A Lack Of Segregation Of Duties

The McLean County Sheriff's Office has a lack of segregation of duties. The bookkeeper is responsible for the collection of cash and preparation of the daily deposit and daily tax collection journal. She is also responsible for the preparation of monthly reports and issuance of monthly tax distribution checks to each taxing district. A lack of segregation of duties exists over the receipt and disbursement functions of the sheriff's office because a limited number of employees are available to properly segregate these job duties. A lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets.

We recommend that the sheriff segregate the duties over the receipt and disbursement functions in order to adequately protect employees in the normal course of performing their duties and to help prevent misappropriation of assets and inaccurate financial reporting. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

Sheriff's Response: No Response.

2014-002 The McLean County Sheriff's Office Did Not Prepare Bank Reconciliations

The McLean County Sheriff did not prepare bank reconciliations for his bank accounts. The bookkeeper would periodically examine and compare receipts and disbursements per the tax software to the online bank account access; however, she did not perform written bank reconciliations or document the process she did perform. The bookkeeper was new during the year of audit and was unaware that written bank reconciliations needed to be performed monthly. By not performing a monthly bank reconciliation the McLean County Sheriff's Office cannot ensure that all receipts and disbursements per the ledgers agree to the bank balances. This could allow the misappropriation of assets to occur and go unnoticed.

Per the Department for Local Government Budget Manual, under the authority of KRS 68.210, a monthly bank reconciliation must be performed for all of the sheriff's bank accounts. Good internal controls also dictate that a monthly bank reconciliation be performed in order to ensure that all funds are accounted for each month.

We recommend that the sheriff perform a monthly bank reconciliation for all of the sheriff's bank accounts.

Sheriff's Response: No Response.

